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Weekly Summary

Secret
No. 0020/75
May 16, 1975

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Cambodia: The Mayaguez Incident

The Cambodian communist seizure of the US merchantman Mayaguez has resulted in the first serious foreign policy reversal for the new Cambodian government since it came to power in mid-April.

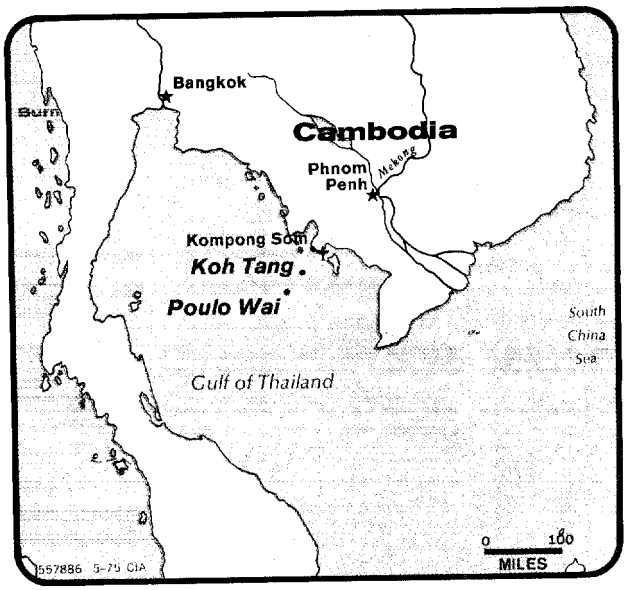
The Cambodians had stopped a Panamanian vessel on May 9 and had harassed several other, mostly smaller, craft. On May 12, their patrol boats fired on the Mayaguez, bringing the ship to a halt as it was moving on the regular shipping route from Hong Kong to the Thai port of Sattahip. This route passes within about eight miles of Poulo Wai Island, some 60 miles from the mainland. The day after boarding the Mayaguez, the Cambodians forced it to sail to Koh Tang Island, only 30 miles from the mainland. At Koh Tang, the ship anchored, and the crew was taken to the island and kept there until the 14th, when they were transported to the mainland. This at least indicated that the Cambodians appreciated the value of the crew's lives, if only as hostages for possible bargaining.

Five Cambodian communist patrol boats guarded the Mayaguez soon after it arrived at Koh Tang, and they were soon exchanging fire with US aircraft sent to help in securing the return of the ship and crew. Three of the patrol boats were sunk in the ensuing action.

On May 15, following a quick transfer of US forces to the area, US Marines landed on the Mayaguez and took control. Other marines landed on Koh Tang Island and engaged the Cambodians there while air strikes hit Cambodian installations on the mainland. At virtually the same time, the Cambodian government radio announced that the ship would be returned. Within hours, a Thai fishing vessel captured earlier sailed under a white flag to the USS Wilson and returned the crew in good health.

Cambodian communist motivation throughout the incident remains unclear. There are a number of islands off the coast that have been claimed for a long time by both the Vietnamese and the Cambodians, and it appears that the latter have been using their newly captured patrol boats to establish a presence on the islands on behalf of the new regime. It appears that the Cambodians, who only recently had expelled virtually the whole foreign community from Phnom Penh and emptied the city of its population, decided that harassing international shipping in adjacent waters would be a good way to reinforce their claims to the islands, although the new government has yet to describe its claims with any precision. It is not clear whether the new central authorities had any forewarning that the Mayaguez was being boarded and the crew seized.

The Cambodians' announcement on May 15 that the Mayaguez would be released apparently was prompted by a realization that their territory and installations would be vulnerable to punitive attacks if they failed to respond



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to US demands. Moreover, the new regime presumably recognized that the capture of the ship had not been supported by Peking, Hanoi, or any other sympathetic foreign governments.

Chinese leader Teng Hsiao-ping's comment in Paris that China would not be able to help if the US responded with force was not replayed from Peking, but neither was it modified or supplanted by statements more encouraging to Cambodia. The Yugoslavs' subsequent reference to the "kidnaped" ship and the French press comment that President Ford had little choice but to respond firmly reflected the trend of foreign opinion against the Cambodians.

The Cambodian announcement was carefully worded and defensive in tone, although much of its rhetoric was designed to justify the seizure as a reasonable precaution against the possibility that the ship was engaged in espionage.

Despite broad recognition that the Cambodians had provoked the US to act, the first criticism of the US attacks came quickly from Bangkok. The Thai do not disapprove of the forceful recapture of the Mayaguez, but they believe that US actions have compromised their efforts to establish a good relationship with the new communist regime in Cambodia. Prime Minister Khukrit has asked his Foreign Ministry to recommend ways to make a very strong response to convey Bangkok's displeasure. Thai newspapers, within hours of the attacks, were recommending that the government refuse the credentials of Ambassador Whitehouse, who has just arrived in Bangkok, recall the Thai ambassador from Washington, and shut down all US bases forthwith.

Although the Chinese had issued no statements from Peking before the US action, Vice Premier Li Hsien-nien has told a banquet audience that Cambodia's measures against the Mayaguez were a legitimate safeguard of state sovereignty, and he claimed that world opinion should consider the recapture of the vessel as an "outright act of piracy." 25X1

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Laos: Rightists Routed 2-3

The rightist faction of the 13-month-old coalition government has collapsed, and the Pathet Lao now represent the only effective bloc power in the country.

Totally demoralized by communist victories in South Vietnam and Cambodia, by the virtual impotence of the Royal Lao Army in the face of limited Pathet Lao attacks in northern Laos, and by the eruption of communist-inspired civil disorder in every major city in their zone of control as well as in the "neutralized" twin capitals of Vientiane and Luang Prabang, almost all leading rightist political and military leaders have fled the country or resigned their positions. The neutralist faction of the tripartite coalition remains intact, but along with its leader—Prime Minister Souvanna Phouma—appears essentially powerless.

Communist Deputy Prime Minister Phoumi Vongvichit has repeatedly stated that the Pathet Lao will continue to work within the framework of the 1973 Lao peace accords, which presumably means that they might be prepared—for the time being, at least—to retain the facade of a coalition. Indeed, they are probably anxious to have Souvanna stay on as prime minister if only to give their political take-over a strong sense of legitimacy. Moreover, their recent gala reception of Lao King Savang in Sam Neua suggests that the monarchy may also be retained.

An acid test of the Pathet Lao's attitude toward preservation of the coalition will come when replacements for recently ousted rightist cabinet ministers are selected. Under the terms of the 1973 accords, the various coalition parties are entitled to fill vacancies in ministries

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Phoumi Vongvichit

under their control with personnel from among their own ranks. Pathet Lao Deputy Defense Minister Khammouane Boupha, however, has already been named "acting" defense minister in place of rightist Sisouk na Champassak, and this could set a precedent for communist personnel to replace all of the ousted rightist ministers. Indeed, several days prior to Boupha's appointment, Souvanna asked his deputy, Phoumi, to determine whom the Pathet Lao high command in Sam Neua wanted to fill the vacuum created by the departed conservatives. In any case, it seems certain that whatever personalities are eventually chosen will be totally subservient to Sam Neua's wishes.

Having successfully stripped the rightists of political and military power, the Pathet Lao have now shifted their attention to the US presence in Laos. Over the past week, increasingly hostile communist-inspired demonstrations have been mounted against the US embassy in Vientiane and against USAID installations and personnel in Savannakhet and Luang Prabang.

The minimum communist objective appears to be the elimination of USAID and other American organizations from provincial areas. If Phoumi's statements are any criteria, the Pathet Lao may be willing to tolerate, for the moment at least, a reduced US official representation in Vientiane. The communists also appear willing, and in some cases even anxious, to receive unconditional US assistance, providing the aid is channeled directly to the coalition government which now is effectively under their control.

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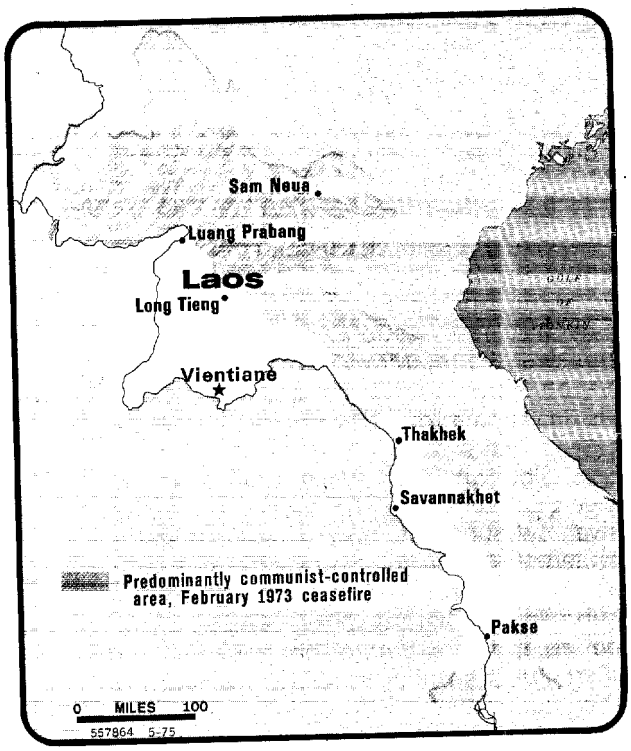

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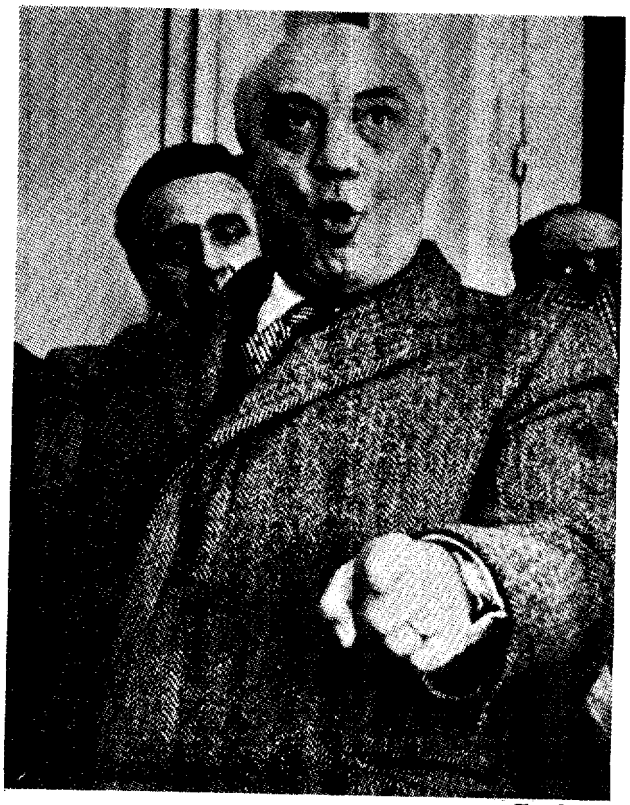

Fanfani

ITALY: PRE-ELECTION POLITICS 4-7

The Italian Parliament will recess next week in order to campaign full time for nationwide regional and local elections on June 15. The last few sessions are likely to be stormy, however, as the Moro government tries to secure Senate approval of its proposals to deal with rising crime and political violence.

The anti-crime package was passed last week by the lower house but only after a divisive debate that accentuated differences between the Socialists and their coalition partners. The proposals generally give the police a freer hand in combating street violence. They would be able, for example, to conduct on-the-spot searches of suspicious persons without obtaining the usual authorizations. In addition, the use of "provisional liberty"—a form of bail—would be tightened up, and persons arrested for using weapons against the police would be prosecuted more expeditiously.

The Socialists are divided over the proposals. The majority reluctantly accept the package, but an influential minority on the left maintains that the measures would threaten civil liberties and ignore what they view as the predominantly fascist origin of most serious violence. This group went along only after the other parties agreed to cosmetic changes that give the proposed law an anti-fascist cast. The fact that votes of the neo-fascists helped overcome combined Socialist-Communist opposition to the bill's toughest provisions probably strengthened the Socialists' resolve to amend the bill in the Senate. If they succeed, final action would be difficult before Parliament recesses next week. In any event, the debate over law-and-order is sure to remain a central theme of the election campaign.

The dominant Christian Democrats have been meeting, meanwhile, to complete their strategy for the campaign. In addition to casting his party as the major proponent of strict law enforcement, Christian Democrat chief Fanfani is continuing to emphasize his opposition to any cooperation with the Communists at the national and local levels. Sharp differences persist among the Christian Democrat factions, however, and these are likely to erupt into a full-scale leadership struggle if the party does poorly in June.

The leftist factions are still opposing Fanfani's approach to the elections, and differences between Fanfani and other major Christian Democratic leaders, such as Prime Minister Moro and Foreign Minister Rumor, seem to be sharpening. As part of his strategy to attract support on the right, Fanfani this week suggested that his party consider alternatives to collaboration with the Socialists, such as a centrist government in which the Socialists would be replaced by the small and conservative Liberal Party. Moro, however, is striving to keep

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alive the principle of Christian Democrat - Socialist cooperation with his minority government that relies on Socialist parliamentary support.

[redacted] 25X1

recognition that the EC speaks for member states on common commercial policy, and, the EC hopes, induce East European states to deal similarly with the EC. Thus far, the USSR has succeeded in heading off bilateral talks by initiating discussions between the Communist states' economic grouping, CEMA, and the EC.

Peking, of course, is also hopeful that its actions strengthen the EC's hand in dealing with Eastern Europe and that Moscow's hold in that area can be loosened—at least marginally. The Chinese see their new arrangements with the EC primarily as a means of consolidating political ties with Western Europe and giving them greater leverage in their own dealings with the USSR. [redacted] 25X1 25X1

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EC-CHINA: SOAMES SUCCEEDS

China agreed last week to establish a formal relationship with the European Community and to accredit a representative to EC headquarters in Brussels. The announcement came after EC External Affairs Commissioner Soames visited Peking. In talks with senior Chinese foreign affairs and trade officials, Soames satisfied Peking that the EC had no official relationship with Taiwan and that EC members accepted Peking's view of Taiwan's status. Soames was then received by Premier Chou En-lai, a visit which exceeded the requirements of protocol and which reflected Chinese enthusiasm for a relationship with the EC.

The Chinese also began exploratory talks on a trade agreement with the EC, which, if concluded, would probably carry provision for most-favored-nation treatment and a nonpreferential trade system. These talks are to continue in Brussels.

Both sides have strong political motivations for a trade agreement. It would imply Chinese

Soames

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CSCE: THE CRUNCH IS ON 8-13

Most delegations at the European security conference believe that the next few weeks in Geneva will be crucial ones. If the conference is to conclude this summer—as the Soviet and virtually all other delegations hope—many issues will have to be resolved in a relatively short time. Activity has now increased perceptibly, some issues have been settled, and a working group has begun planning for a final summit-level meeting.

Moscow is apparently counting on the Western participants to give up trying to get concessions on a number of issues. The Soviet negotiators have recently shown flexibility on some matters, but they have stalled on others and even reopened debate on several considered settled months ago. The West European delegations are having difficulty matching the determination and resolve of the Soviet Union.

The Soviets recently accepted a French compromise that ended a long deadlock on the declaration of principles, which the conference has been formulating for guiding international relations. The Soviet acceptance opens the way for the conferees to conclude their work on this part of the so-called Basket I.

The conference has yet to agree, however, on the wording in the declaration of principles of a so-called saving clause. This is a statement implying that the rights and responsibilities of the US, UK, France, and the USSR in Germany and Berlin are not affected by the conference's decisions. Many of the neutral delegations are trying to change the present draft, considering it too vague and an affirmation of the "Brezhnev doctrine." The Western powers are amenable to change, but the Soviets may limit alterations.

The Soviet negotiators have also displayed a certain degree of flexibility on one of the major military-related "confidence-building measures"—but only after the Western and neutral delegations made an important concession. The Soviets said that they could accept the Western idea of providing advance notice about national and multinational military maneuvers if the notification were given on a voluntary basis. The Western and neutral states accepted this Soviet proposal as a "working hypothesis," but still have to determine how much advance notification should be given and the size and location of the maneuvers that would be affected.

In contrast to their flexibility on "principles," the Soviets have drawn the line on matters concerned with the freer movement of people and ideas. The Western negotiators now plan to present a single text covering all such topics. They contend that this would put maximum pressure on the Soviets to come to reasonable terms at a time Moscow may consider optimum for working out a deal. Past behavior suggests that the Soviets will test the West's resolve by continuing to stall.

Another point to be settled is the type of follow-on machinery to be established. The Soviets formally support a Czechoslovak proposal to create a post-conference consultative committee with a broad mandate to discuss issues affecting security and cooperation in Europe. The committee would have a permanent secretariat. This is an objectionable feature as far as the West is concerned. The Soviets themselves have cooled to the idea, perhaps out of concern that the West could use the proposed committee to hold them to account on the implementation of the conference's agreements.

The Western delegations formally support Denmark's proposal for senior officials to meet three years after the conference ends in order to assess the results and decide whether further meetings are necessary. The West Europeans,

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however, are sharply split on the issue. The Dutch, Belgians, and French advocate as little follow-on activity as possible, while the British, and now even the Danes, are prepared to accept relatively frequent meetings of experts and senior officials. On this and other issues, the NATO allies are hoping that the US might take the lead.

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ROMANIA AND THE NONALIGNED

14-16

Romania's relations with the USSR will be further strained if Bucharest is successful in its quest for observer status at a conference of nonaligned foreign ministers in Lima later this year. Romania had sought admission as an observer to the fourth nonaligned summit in Algiers in 1973 but did not succeed, partly because of a rebuff from the Yugoslavs. Since then, President Ceausescu has persistently stressed the rights of developing states and the common interests of Romania and the nonaligned world. He has also received and visited scores of Third World leaders.

The Romanians now seem to have won Yugoslav endorsement for their nonaligned bid. The communique at the conclusion of Foreign Minister Macovescu's visit to Belgrade from April 28 to 30 implied Yugoslav support, and there are indications that the Yugoslavs are encouraging Romania to seek backing from such nonaligned countries as Algeria, Egypt, and Mexico. Ceausescu's sudden two-day visit to Syria and Egypt late last month was in part intended to press Bucharest's case.

Romania's party secretary for foreign relations has privately admitted that "some" nonaligned states are resisting Bucharest's efforts to achieve observer status. He said these countries fear that Romania's admission, even as an observer, might open the door for other, more "aligned" states to intrude.

Should Romania achieve observer status, new tensions would be added to Soviet-Romanian relations. For instance, Bucharest would be associating itself with such nonaligned concepts as the division of the world into the "haves" and "have nots." These formulations are anathema to the men in the Kremlin, who insist on viewing international relations in the strict doctrinal framework of class struggle.

To reduce the risk, the Romanians have carefully couched much of their case in the Kremlin's own language endorsing nonalignment and are clearly banking once again on correctly reading the limits of Soviet tolerance. Ceausescu has apparently decided that if even a tenuous link with the nonaligned movement can be established, Bucharest will be better able to counter future pressure to conform to the Kremlin's policies.

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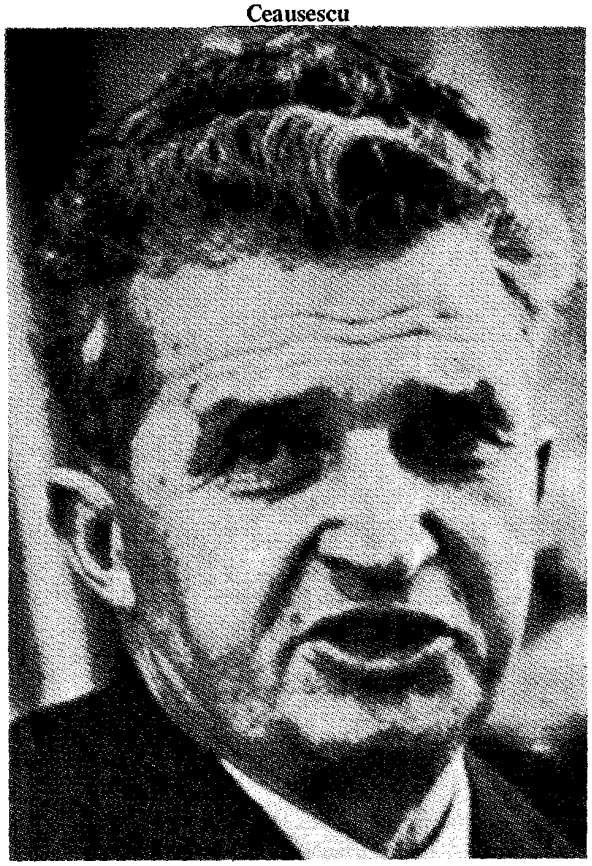
Ceausescu



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Soviet government and party leaders at Lenin's tomb for V-E Day ceremony

V-E DAY CELEBRATION

TASS

Soviet Solemnity... 23-24

The Soviet buildup of the 30th anniversary of V-E Day was months in the making, and inevitably it got Moscow into some hot water abroad and into some sensitive areas at home. Last week the celebrations finally took place, but they did not fully answer the question of why all the bother in the first place. The answer may rest in the emotions of an aging leadership, and a people, for whom World War II was both trauma and triumph. It was an opportunity to remind the younger generation of what the war was about and of how far the Soviets have come since 1945.

The main event was a "solemn" meeting in the Kremlin Palace of Congresses on May 8, where Brezhnev gave the keynote speech, long on rhetoric, to a large gathering of Soviet and foreign dignitaries. He managed to put in a good word for the Yugoslavs to help undo the damage of earlier statements that slighted their contribution to the war effort.

He made no special effort to be kind to the US, but did make a pitch for disarmament and detente. Although Brezhnev failed to repeat Minister of Defense Grechko's earlier formulation about the "possibility of political and military cooperation between states with differing social systems," something close to this idea was included in his message to President Ford.

Brezhnev managed to avoid mentioning Stalin at all, nor did he refer to the wartime contribution of political officers. (Brezhnev had served in such a capacity during the war.) In what was evidently a separate ceremony, however, Brezhnev received his marshal's star, signifying his promotion to the rank of general of the army. The award once again presented visible evidence of the special relationship between Brezhnev and the military.

...and Military Parading

During the Victory Day parade in Belgrade, [redacted] FROG-7 tactical rockets with Yugoslav military personnel for the first time. The FROGs will provide the Yugoslav army with its longest range artillery weapon. During rehearsals for the parade, [redacted] also saw SA-6 and SA-7 surface-to-air missiles. Yugoslavia's acquisition of these surface-to-air missiles will provide its armed forces with a more flexible and mobile air defense capability against aircraft flying at low-to-medium altitudes. 25X1 25X1

Although [redacted] SA-4 and SA-6 surface-to-air missile equipment with Czechoslovak armed forces, we suspect that the Soviets merely loaned the missiles to the Czechoslovaks for the parade. Soviet troops stationed in the country already have SA-4 and SA-6 missiles. [redacted] 25X1 25X1

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WARSAW PACT ANNIVERSARY 25-27

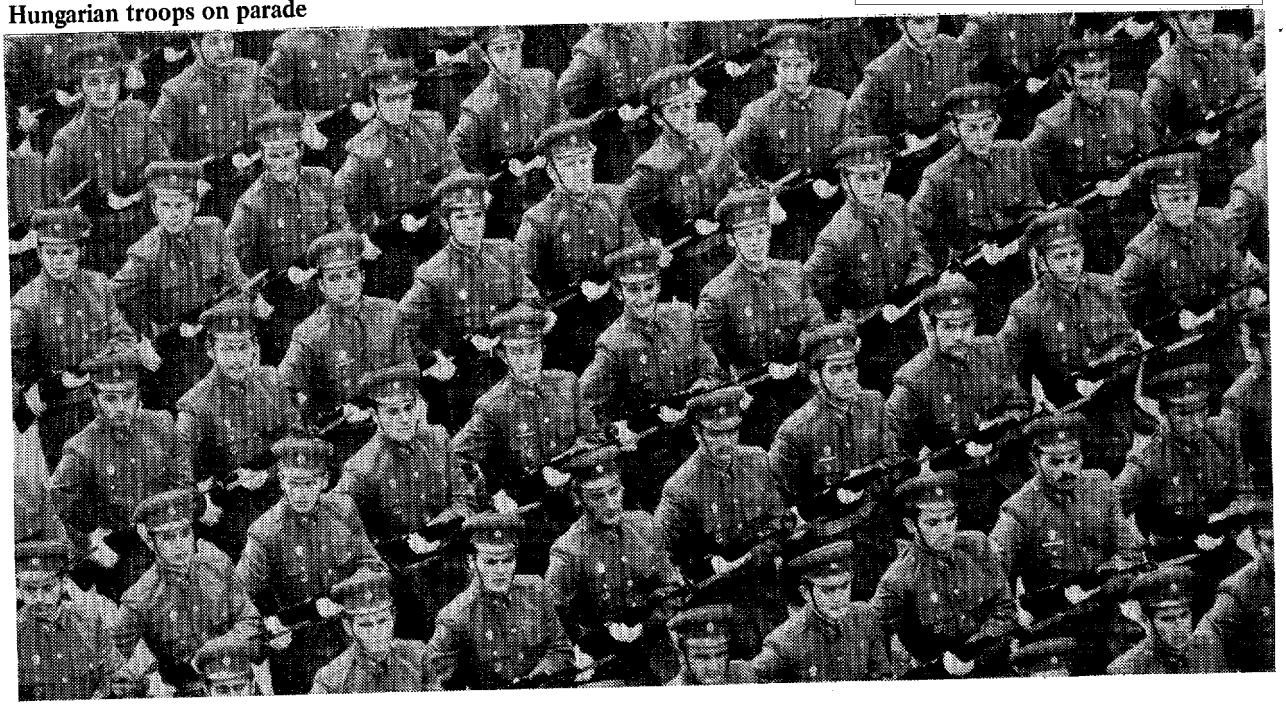
The Warsaw Pact quietly celebrated the twentieth anniversary of its founding on Wednesday amid indications that the Soviet Union has received a setback in its effort to upgrade the political role of the seven-member organization.

Moscow has been pushing for the creation of a permanent committee of pact foreign ministers and a pact secretariat headed by a strong Soviet secretary general. These proposals have cropped up periodically during the two decades of the pact's existence and are consistent with Brezhnev's often stated desire to make the pact "the main center for coordinating the fraternal countries' foreign policy." The Soviet initiative reportedly was to be announced at a pact summit in Moscow that would have been a suitable culmination to the flood of self-congratulatory propaganda generated by anniversary celebrations commemorating the end of World War II.

A Romanian diplomat recently said that neither the proposal nor the summit was acceptable to his government. Moscow, rather than let this disagreement spoil the anniversary festivities, apparently chose to shift the venue to Warsaw and lower the level of participation to pact parliamentarians. In response to this move, Bucharest resorted to its tactic of sending a lower representation level to bloc meetings it deems objectionable.

Meanwhile, the pact continues to be an alliance of unequals whose military resources, training, and defense policy are rationalized and coordinated in the Soviet interest. It is increasingly being used by Moscow as a channel to transmit directives to its East European allies and organize East European support for Soviet policies. Although the Soviet Union has periodically expressed willingness to dissolve the Warsaw Pact in exchange for the dissolution of NATO, it is not likely that Moscow will give up its search for ways to make the alliance a more effective tool in maintaining Soviet hegemony in Eastern Europe. 25X1

Hungarian troops on parade



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28-29

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30-32

SOUTH KOREA: CRACKING DOWN AGAIN

President Pak issued a sweeping new emergency decree this week banning any criticism of the authoritarian 1972 constitution, the spreading of "false rumors," all student political activity and prohibiting any statement against the decree itself. Members of parliament are exempted if their criticism is expressed on the National Assembly floor, but the media cannot publicize the statements.

Pak has long wanted to disarm his domestic opponents, who have been challenging his increasingly authoritarian rule, and he fears North Korean efforts to foster "revolution" in the South. He has apparently concluded that it is more urgent to strengthen defenses against his enemies at home and in the North than to satisfy critics of his human rights policies, including those in the US Congress.

The new decree is in line with the trend toward tougher domestic controls by the Pak government, but its comprehensiveness has surprised many observers. It comes at a time when Pak's most vocal opponents have been closing ranks in support of the regime in order to avoid giving a signal of internal weakness to

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the North in the wake of Indochina events and Kim Il-song's visit to Peking.

Pak's adversaries are unlikely to move forcefully soon to challenge the new decree. They fear imprisonment, they need time to regroup and assess US reactions, and they don't want to appear irresponsible in the current mood of uncertainty about Pyongyang's intentions. The new measures are repugnant to Pak's opponents, however, and they appear certain to become volatile issues eventually in the ongoing political warfare in Seoul. 25X1

33-35

Philippines-China
MIDSUMMER NIGHT'S DREAM

President Marcos may get his wish to make a state visit to Peking "when the weather is warm" so he can wear the Philippine national dress, which includes a sheer shirt made of pineapple fiber. Mrs. Marcos recently told China news agency officials in Hong Kong that her husband hopes to visit China next month. Negotiations in Tokyo between Philippine and Chinese representatives over diplomatic recognition are apparently proceeding without a hitch.

If negotiations proceed favorably, Marcos will personally work out the final details during his state visit, and presumably the official announcement would be made at that time. Mrs. Marcos said that her brother would go to Peking this month to make the arrangements for the President's visit. She has been lobbying hard for early recognition of China and is doubtless looking forward to a role as intermediary, introducing her husband to the Chinese officials she met during her triumphal visit last September.

President Marcos has also been taking steps to prepare the Philippine domestic scene for a communist Chinese diplomatic presence. In April, he issued a presidential decree that liberalizes naturalization requirements and speeds up the process of citizenship for alien Chinese residents in the Philippines. He hopes this will resolve the long-standing issue of the legal status of some 150,000 local Chinese. Marcos was concerned that they would become "wards" of Peking once diplomatic relations were established, and like other Southeast Asian leaders, he wants to minimize the opportunities for interaction between communist Chinese diplomats and local Chinese.

Marcos has not yet shown any particular concern about what effect a Peking mission in Manila might have on the country's small but well-organized communist insurgents. Since martial law was instituted, Philippine security authorities have arrested many of the urban political cadre of both the pro-Peking and the pro-Moscow communist parties. The Maoist-style New People's Army insurgents in rural Luzon Island have been relatively inactive in the past two years. 25X1 25X1

Mrs. Marcos and Madame Mao visit a commune

SUNBURST

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Jallud (l) and Kosygin meet in Moscow last May

USSR-LIBYA: SOME MUTUAL BENEFITS 36-38

The visit to Libya this week of Soviet Premier Kosygin indicates that despite the mutual suspicion and political differences of Moscow and Tripoli they plan to continue economic and military ties. The visit is the first by a Soviet leader since the Libyan revolution, and both countries probably hope it will strengthen their hands in dealing with their mutual antagonist in Cairo.

The presence of economic and military aid specialists on Kosygin's delegation suggests that an expansion of these programs was discussed. On the eve of Kosygin's arrival, Moscow delivered the first MIG-23s purchased by Libya under the arms deal entered into last year. A desire to get some of Libya's oil money is clearly one important factor behind Moscow's new relationship with Tripoli.

Both sides went out of their way to demonstrate that they still differ on how to achieve a Middle East settlement. Kosygin publicly stressed that the Geneva conference should be reconvened and should ensure the independence of "all" states—a clear reference to Israel. He lectured about the need for Arab unity, but it is unlikely that Moscow thought it could sway the instransigent Libyans, or even that Tripoli is particularly important in getting a Middle East settlement.

Prime Minister Jallud met with the head of one of the most extreme Palestinian groups on the eve of Kosygin's visit to make plain Libya's continued support for the radical Arabs. To drive the point home, Tripoli edited references to Geneva from its account of Kosygin's speech.

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The Egyptian angle seems to be what has brought the Soviets and the Libyans together. Moscow may hope that the visit will make Egypt uneasy about Soviet influence next door and will demonstrate that the USSR has other options in the Arab world. Tripoli, which had been pressing Moscow to send a high-level visitor, particularly welcomed the visit in view of the recent intensification of strains between Libya and Egypt.

Egyptian President Sadat's remarks suggest that the visit was on target. He said the Kosygin trip "poses a strange question mark" about Soviet and Libyan intentions, particularly in view of the "legendary dimensions" of Moscow's arms commitments to Tripoli.

After Libya, Kosygin will go on to Tunisia, but that visit was laid on hastily and will probably result in little of significance. It will give Moscow the opportunity, however, to talk about a Middle East settlement before an audience more in tune with its views than the Libyans.

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39-91

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Dominican Republic
PRESIDENT STRENGTHENS HAND

62-65

President Joaquin Balaguer has strengthened his political position by adept handling of relations with senior military officers. He has neutralized one ambitious officer and has placed men personally loyal to him in key military slots.

For several years, the cornerstone of his military strategy has been to play off the two main contenders for influence—Generals Neit Nivar and Enrique Perez y Perez—against each other. In 1972 Balaguer removed Nivar as chief of the national police and subsequently boosted Perez y Perez to the post of army chief of staff. Early this month, however, Balaguer shifted Nivar back to the chief of police slot. On May 9 Perez y Perez and his counterparts in the air force and navy and the secretary of the armed forces—a navy rear admiral—submitted their resignations in protest. The President quickly called their bluff, accepting the resignations and naming officers loyal to him as replacements.

President Balaguer

With his usual foresight and attention to detail, Balaguer took a number of steps to ensure against any military repercussions. He obtained signed commitments of support from all senior officers and ordered them to confine the troops to barracks, to put the National Police on alert, to check on the loyalty of battalion-level commanders, and even to remove the firing pins from artillery pieces in Santo Domingo.

The four officers had little success in drumming up support from their colleagues to try to reverse Balaguer's action, and they are now asking him to give them new jobs in exchange for promises of good behavior. Balaguer may well believe that he has made his point and be willing to find positions for the four that will not involve command of troops.

The aggressive General Nivar, meanwhile, has moved rapidly to place his men in key police positions and to try to rebuild the power base that had deteriorated sharply since 1972. He may succeed for a time, but the police chief post has never been a very secure one, and Nivar's own tenure could turn out to be brief.

Balaguer probably intended the return of Nivar to favor mainly as a move to restore the political balance in the military. He must have been confident that his position was secure enough to risk a challenge from Nivar's enemies. He may have planned to use the opportunity to put his own men in key armed forces slots, making his administration even more of a one-man operation. With the opposition political parties in disarray, the military has been the last effective constraint on Balaguer's power, and he seems to have shown that it can also be overcome. 25X1

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CUBA: INCHING TOWARD DETENTE 66-69

Fidel Castro has given his most straightforward indication to date that he is ready to work toward improving relations with the US. Although the official summary of his talks with journalists covering Senator McGovern's visit carried his "reiteration" that the US "blockade" must end before negotiations can begin, other quotes underscored a genuine interest in moving toward an accommodation.

One "emphatic" quote attributed to Castro, for example, stated: "We are ready to abide by international norms and respect all countries that respect us." This appears to indicate a willingness to accept the "mutuality of obligation" specified in Secretary Kissinger's statement in Houston on March 1. In addition, Castro hinted at a willingness to agree to refrain from subversion on a basis of reciprocity. He mentioned that Mexico, "as an example," never tried to overthrow his revolution, and "Cuba has responded with a similar attitude." Even with regard to getting rid of the Chilean "fascist" government, he acknowledged a readiness to consider this a "matter to be decided by Chileans themselves."

As for a sign of good faith from the US, he indicated that a partial lifting of the blockade to permit the export of food and medicine to Cuba would be "an important step that would lead to a reconsideration by Cuba of its relations with the US." Previously, Castro had demanded that the US unilaterally terminate the blockade, presumably without a Cuban response other than to go to the negotiating table. He is apparently now willing to match stages in the lifting of the blockade with Cuban counter-gestures. His press release, however, failed to mention what these gestures would be, although the foreign press claims he hinted at the release of US political prisoners and the return of a two-million-dollar ransom confiscated from hijackers in November 1972.

Castro might have gone further in indicating his willingness to improve relations, but he apparently was stung by the refusal of the US to acknowledge Cuba's release of some US citizens—jailed for illegal entry and drug-related offenses—as gestures of good will. Four had been permitted to leave Cuba shortly after the visit of Senators Pell and Javits last September—as a gesture to the senators but not the US government—and others followed earlier this year.

According to the Cuban press release, Castro admitted the US had made "some small gestures," but asserted that, "regarding an alleged lack of reciprocity," Cuba had made a much more valuable gesture in helping to solve the hijacking problem. Castro had tried on at least two other occasions to establish the myth that he expected the US to seize the initiative to improve relations in the wake of the hijacking agreement reached in February 1973. Havana, however, had warned against that very interpretation when the pact was signed. The Cubans had negotiated because of negative world reaction to the Cuban haven for hijackers and because Castro apparently feared some fatal hijacking accident that might further tarnish Cuba's image.

Castro's suggestion that his action on hijacking might be repaid by permitting the export of food and medicine was probably made with the current OAS meeting in mind. He may expect the US either to press for a lifting of the OAS sanctions or to allow limited exports, thereby undercutting an OAS policy it had been instrumental in formulating.

Castro will not be rushed into negotiations. He regards a reconciliation with the US as inevitable, but his statements at the press conference indicate that he sees the process as a drawn-out affair, involving careful and complex maneuvering for positions of advantage. He is under no pressure for a quick solution and instead appears to be trying to generate pressure on the US through the press and public opinion. His press release included his expression—which he gave in English in front of US television cameras—of "wishes of understanding and friendship" sent "to the US people." [redacted] 25X1

[redacted] 25X1

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PERU-US: A LONG, HOT SUMMER 70-73

A number of economic and political issues are likely to cause a downturn in US-Peruvian relations in coming weeks. Strains in relations have grown since 1968 when Peru's new military government expropriated the holdings of a major US-owned oil company; present military leaders remain deeply hostile toward US economic involvement in their country. Some officers are convinced that Washington is committed to "destabilizing" their nationalist-leftist revolution. In bilateral negotiations, these sentiments have led Peru to assume intransigent postures; the US is a frequent target of vitriolic rhetoric at international meetings.

The most serious unresolved problem concerns the civil aviation agreement between the two countries. Military leaders in Lima are holding out for extensive concessions by Braniff Airways in order to expand service by Aeroperu—the Peruvian state airline—to the US and to other Latin American countries. Some officials apparently are prepared to suspend all bilateral air service and risk a confrontation with Washington. Those urging moderation may be able to forestall a suspension, but the hardliners' position will be strengthened if President Velasco concludes that discussions on other bilateral issues are not progressing well. As in other negotiations, sound economic considerations may give way to nationalistic inflexibility.

Another potentially serious issue is the possibility that major US oil companies may pull out of Peru because of reduced estimates of recoverable reserves in the northeast jungle. The companies have been exploring the area for several years now, and the military government has counted heavily on substantial oil revenues to fund domestic programs. Although results from exploratory wells have not been encouraging, some Peruvian officials apparently remain convinced that there are large reservoirs of recoverable reserves. President Velasco and some of his more radical associates might conclude that any oil company pullouts are part of a US effort to weaken Peru's economy.

The government's concern over continued oil company activity, however, did not stop it from moving against Gulf Oil facilities on May 14. According to the expropriation decree, Gulf's relatively small holdings were taken over because the company had exhibited "immoral" behavior in its operations in Latin America. The government cited press reports that Gulf had paid money to unnamed foreign officials—apparently not Peruvian—in order to continue operating in their country. While Gulf is not involved in oil exploration in Peru, President Velasco may have wanted to warn other oil companies not to stray from the regime's strict standards of conduct. By the same token, of course, he risks causing the companies to have even less confidence in Peru's investment climate.

President Velasco may also have moved against Gulf in retaliation for a strongly worded protest by the US ambassador last week regarding published Peruvian congratulations to North Vietnam and the Viet Cong on their "defeat of US imperialism."

Another US company, Marcona Mining, is also in line for expropriation. The regime has been considering such a move for some time and recently began a press campaign aimed at publicizing alleged misconduct by Marcona.

Although Peruvian actions against US companies will probably be restrained by the government's need to maintain its creditworthiness with international lending institutions, Velasco may conclude that the civil air problem is under no such restraint. Moreover, such economic considerations are unlikely to weaken anti-US statements by regime officials and pro-government editorialists. This continuing anti-US press coverage is likely to pick up as Peru prepares to host the nonaligned foreign ministers.

President Velasco reportedly has been unable to resume his full duties since his stroke last February and the uncertainty about his leadership may be adding to some confusion in

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foreign policy. His probable successor, Prime Minister Morales Bermudez, takes a more balanced view of US-Peruvian relations, but does not yet appear willing or able to challenge the President openly on foreign policy matters. 25X1

74-77

BRAZIL: EUROPEAN TRADE

Brazil is making a strong bid to strengthen its economic ties with Western Europe. The move is part of an overall effort to diversify trade relations as much as possible, particularly to lessen reliance on the US, long Brazil's most important trading partner. Brasilia, moreover, is urgently seeking new sources of foreign exchange to alleviate a serious balance-of-payments problem.

Brazil's biggest accomplishment to date is the negotiation of a multibillion-dollar nuclear deal with West Germany. Foreign Minister Silveira is scheduled to travel to Bonn next month to sign the agreement, which will cover construction of eight nuclear plants in Brazil and the provision of fuel enrichment technology. Brasilia also is seeking sizable German financing for a planned expansion of its steel industry.

Other initiatives in Western Europe include:

- A series of seminars in European capitals on investing in Brazil.
- Two European trips made by Finance Minister Simonsen with another planned for later this month.
- The appointment of two highly regarded former finance ministers as ambassadors to the UK and France.

The continuation of Brazil's ambitious development program—which is the primary basis for the military government's claim to power—depends heavily on ever expanding overseas markets, investments, and credits. The current effort to expand economic relations with Europe may also be spurred, at least in part, by annoyance with US trade laws and higher tariffs on some Brazilian exports. Brasilia views these measures—especially the latter—as threats to its export drive. Moreover, efforts to attract sizable amounts of Middle Eastern capital have thus far met with only limited success. 25X1

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UN: SPECIAL SESSION PREPARATIONS

78-82

Less than a month remains before the final meeting in New York to organize the UN's special General Assembly session on economic development and cooperation. Although the session itself will not open until September, the preparatory meeting in June will largely determine the issues to be discussed and will thus mark a significant opportunity to influence the session's outcome. The Seventh Special Session itself could signal the creation of new cooperative arrangements between the developed and developing countries or solidify differences between the two groups.

A resolution of the 28th (1973) regular General Assembly officially called for the session to discuss the problems of development and international economic cooperation. Both the developed and developing countries agree that the agenda will have to be sharply limited if the session is to register any success. What the two groups do not agree on, however, is the status of the so-called New International Economic Order and the Charter of Economic Rights and Duties of States.

Both documents were steamrollered through UN meetings last year, despite the objections of the major industrialized states. The developing countries recognize that these declarations do not have unanimous support, but they insist that the economic "principles" incorporated in them should be considered as the starting point and fundamental basis for negotiations at the Seventh Session. The Group of 77, the developing-country caucus, is now informally circulating for discussion with the developed countries a list of those issues that they feel deserve priority attention because of their "pressing nature." The list repeats most of the major developing country demands, but avoids specific reference to such inflammatory claims as the right to expropriate foreign property and to form producer cartels.

The British have already presented their ideas on a comprehensive approach to the session's organization, which they hope both the developing and developed countries can support. The British would divide items proposed for the session's agenda into three categories:

- General principles—general statements of what is agreed to by the international community and reaffirming a "practical commitment to change and to constructive interdependence."

- Topics where prospects for agreement are good; in this category the British include commodity problems, relating the prices of raw material exports to the cost of industrial imports, and structural changes in the UN system.

- Topics on which immediate prospects for agreement are poor.

The session itself would concentrate on the first two categories; the third would provide a focus for subsequent consultations, outside the session's framework.

A major complicating factor in the preparations, however, is likely to be Algerian Foreign Minister Bouteflika, who, by virtue of his presidency of the last General Assembly, will also preside over the special session. During the past year, the Algerians have strengthened their leadership of the nonaligned Group of 77 movement and show no signs of relinquishing their influence to more moderate members. Despite the openly expressed dissatisfaction of many nonaligned and developing countries with Algerian militance, there have as yet been no defections.

Algeria appears to be alone among the developing countries in demanding that the Seventh Session implement fully all the declarations of the Sixth Session, instead of concentrating on those few issues where prospects seem best for agreement. The political grievances of

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the developing countries nevertheless remain a fertile ground for political manipulation, and the Algerians are unlikely to desist from such efforts. Whether their tactics succeed this time may depend in part on the combination of resolve and flexibility in framing concrete proposals that the developed countries demonstrate.

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OAS: A STUDY IN TACTICS

Midpoint in the OAS General Assembly, now under way in Washington, the delegations were holding to their plan to dispense with the confrontation tactics that have ruled most international gatherings of late. The recent movement toward exclusive, all-Latin associations evidently was checked at the door to preserve the OAS for multilateral dealings between the US and most of the other governments of the hemisphere.

Increasingly the OAS emerges as the exceptional regional body. Over the past several months, Latin leaders have promoted numerous regional enterprises that would exclude the US: a Caribbean merchant fleet, all-Latin multinational corporations, a Latin labor confederation, a Latin press association, and a Latin summit meeting to be held later this year. Moreover, the relative decorum of the OAS assembly signals no turnaround in the prevailing Latin and Caribbean conviction that a continuous airing of familiar charges against the US and other developed nations is a worthwhile endeavor. The Latin Americans continue active participation in and sometimes leadership of the "steamroller" ploy, wherein the developing countries force large majority votes condemning the attitudes and practices of the US and other countries that enjoy high standards of living.

The UN Economic Commission for Latin America, which has just concluded its sessions in Port of Spain, showed none of the softening that has appeared in the OAS. Trinidad, the host government, opened the conference with harsh criticism of the countries that allegedly are blocking the development of a just world economic order, with attacks on "abuses" by transnational corporations, and with proposals for the further exclusion of some countries from certain sensitive committees of the commission. During the sessions, the Latin and Caribbean delegates lined up behind several resolutions to which the US gave the single opposing vote. They agreed to organize a center for the "surveillance" of transnationals, called for the creation of more producer associations, insisted on priority for measures aimed at protecting the markets of less developed countries, and planned a study of the effects on the Latin-Caribbean region of monetary instability and inflation in the developed countries. Clearly, this line will once again be followed at the next UN General Assembly this fall, as well as at numerous regional assemblies scheduled during the rest of 1975.

The depth of Latin American sentiment about the basic unfairness of the "world order" and about the possibilities of altering the situation is such that even those governments sharing the most cordial bilateral relationships with the US will be vocally anti-US at these international affairs. Mexico was vociferous at the Trinidad conference in promoting the exclusion of the US from some economic commission committees and has repeatedly risked conflict with the US over President Echeverria's favorite foreign policy creation, the Charter of Economic Rights and Duties. Similarly, Brazil, ordinarily a moderating force, subscribes to the position that access to supplies of raw materials of the less developed countries is the principal lever of the developing countries vis-a-vis the industrialized world.

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OPEC: TRENDS IN INVESTMENT 87

OPEC foreign official assets reached an estimated $73 billion at the end of last year, compared with $21 billion a year earlier. Lacking the financial expertise to handle the rapid buildup of oil funds, the OPEC states simply allowed most of them to pile up in secure, highly liquid bank accounts and other short-term assets. At year end, the wealth of OPEC members was concentrated in:

- Bank deposits and government securities, which made up about 80 percent of total holdings.
- The financial markets of the major developed countries, London and New York accounting for 60 percent.
- Major currencies—dollar-denominated assets made up about 70 percent of the total, and sterling assets 10 percent.

The OPEC states are gradually becoming more sophisticated investors and are developing broader relationships with Western financial institutions. As a result, the trend in recent months has been toward:

- Longer term placements, in the form of purchases of the stocks and bonds of large private and public corporations.
- More investment in continental Europe, Japan, and Canada, and less in the UK because of its high inflation rate and worrisome payments position.
- Greater diversity in the currency denomination of assets, though the bulk continues to be dollar-denominated.

Long-term investment is becoming increasingly attractive to the oil producers. Short-term interest rates have fallen below long-term rates, and the growing consensus that economic recovery will begin in the developed countries later this year is directing more attention to equity investment. The three producers with the largest asset holdings—Saudi Arabia, Kuwait, and Iran—are showing the greatest interest in long-term investment.

Kuwait established at least seven special investment accounts last year to acquire long-term assets, particularly equities. Under the less conservative financial leadership of Crown Prince Fahd and the new governor of the Saudi Arabian Monetary Agency, Saudi Arabia has begun to select directly investments in corporate securities. Iran is expressing interest in debt and equity investments in major Western companies that can aid in developing its economy. 25X1

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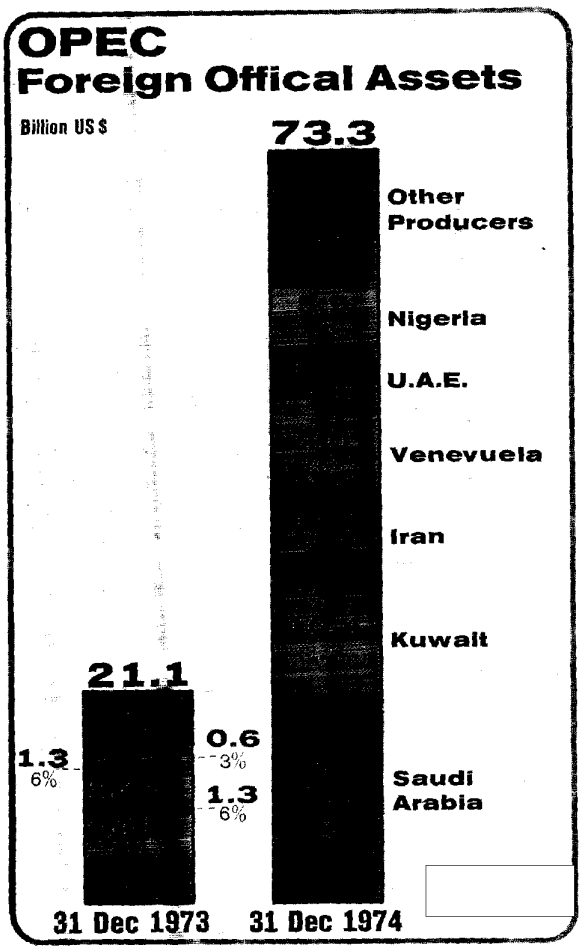

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LAW OF THE SEA CONCLUDES 88-90

The Law of the Sea Conference made some progress toward negotiating a final treaty before concluding last week in Geneva, but major differences between developing and developed countries will require at least two more negotiating sessions. If a treaty is signed at all, it will probably not be before late 1976.

The deep seabed mining issue was the most contentious. The developing countries maintained their solidarity in favor of an international authority to mine the vast mineral resources of the seabed. The developed countries, on the other hand, are split over the powers they are willing to permit an international body and the extent to which the authority should engage in direct exploitation. There had been some movement by the developing countries to accept a system of joint ventures, but efforts to reach a compromise eventually failed. Some of the developing states are worried about competition from exploitation of the raw materials contained in seabed nodules—manganese, copper, nickel, and cobalt.

The Pacific basin, scene of much exploratory work, is thought to be a particularly rich area. The US, Japan, and West Germany, as well as other states, have spent about $100 million on exploratory operations, but no full scale commercial mining is yet underway.

A 12-mile territorial sea, a 200-mile economic zone in which the coastal state exercises broad powers, and unimpeded passage through straits—topics discussed in the Conference's Second Committee—are potential treaty provisions accepted in the main by many of the conference participants.

There are some important questions unresolved, however, such as jurisdiction over migratory fish, the definition of archipelago states, and the delimitation of coastal-state jurisdiction of those areas where the continental shelf extends beyond 200 miles. Moreover, the 40-odd countries, both developed and developing, that are landlocked or geographically disadvantaged in their direct access to the sea are threatening to block conclusion of the treaty unless they are given a greater share of their neighbors' economic-zone resources and guaranteed access to the ocean.

A UN estimate indicates that offshore resources constitute possibly as much as 40 percent of the world's potential petroleum resources, and almost all of this is within the 200-mile economic zone. Since offshore drilling began over a quarter century ago, some 40 billion barrels of oil have been recovered. There are about another 140 billion barrels of proved reserves. By the late 1980s, offshore sources could provide as much as one-half of the world production.

The committee on marine pollution and marine scientific research made little progress largely because most of the developing countries are not willing to accept the principle of freedom of scientific research; some are asserting that consent to permit research in their economic zones will be based on whether the research is resource or non-resource related, a distinction often difficult to make. There has been some movement toward accepting international standards for ship pollution. On broader pollution standards, however, particularly those relating to activities on the continental shelf, the developing countries continue to insist that they should be subject to less stringent standards than the developed countries.

At the end of the session, the chairmen of the conference's three main committees presented a single draft of a treaty based on their interpretations of the discussions. This single text does not represent a negotiated or

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The conference on opening day

even a consensus document. It will be used instead as the basis for subsequent negotiations in the hope that the general outlines in the draft will be filled in with specific articles.

Resolution of the most contentious issues during informal intersessional consultations in the working groups may depend most of all on whether unilateral actions—for example, extension of territorial sea limits or deep seabed mining—are taken by states before next year. Significant actions affecting the ultimate success of the negotiations may also take place in forums not directly related to law of the sea issues.

The global discussions on raw materials—control of and access to them, their relation to industrial country exports and the threat of producer associations to assure higher prices—have increasingly come to dominate relations between developing and developed countries. Successful negotiation of some of these issues, particularly at the coming special session of the UN General Assembly on economic cooperation, could contribute significantly to expediting cooperation in the law of the sea conference. [redacted] 25X1

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